

Mandatory Cattle Price Reporting: What Have We Learned & Where Should We Go From Here?

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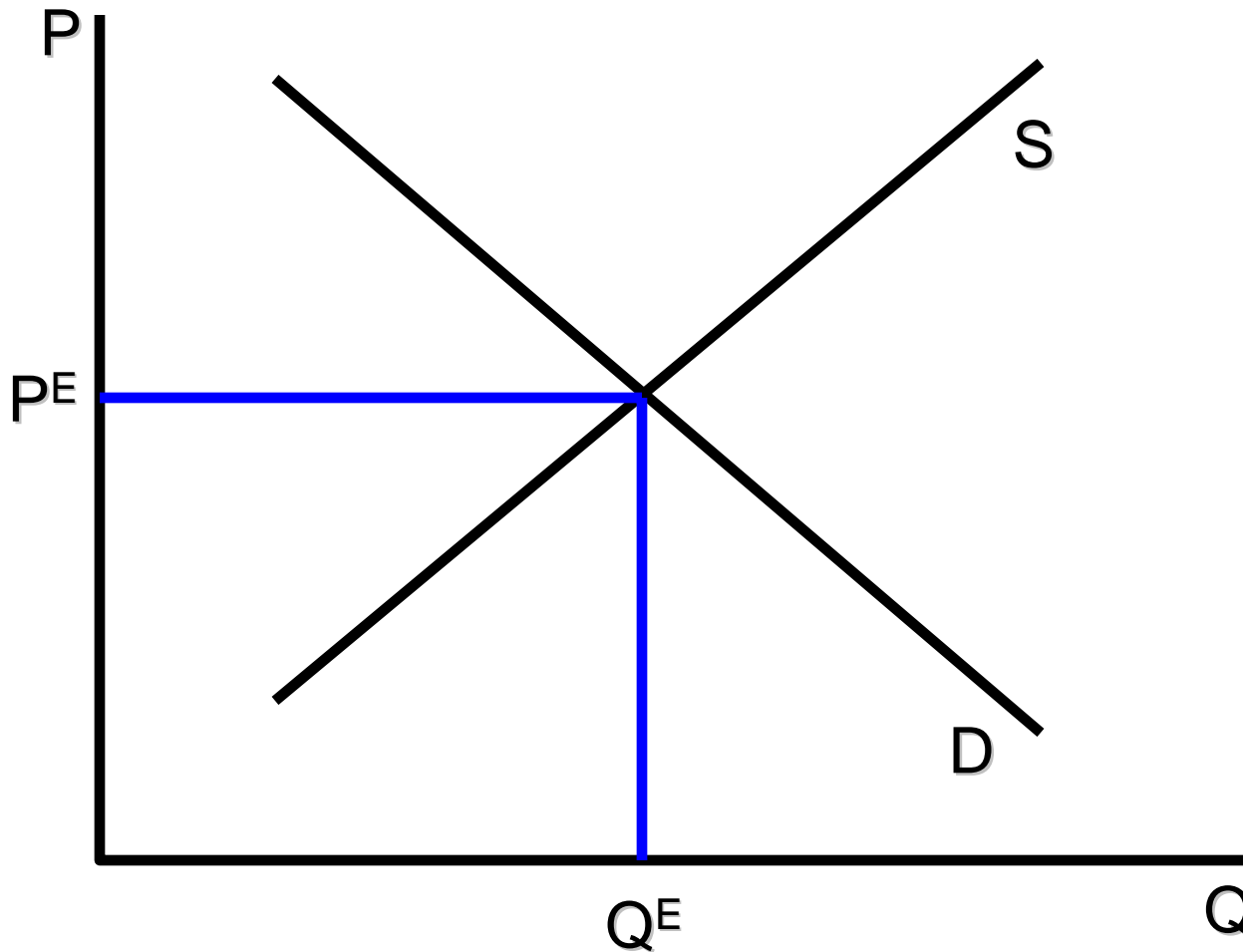
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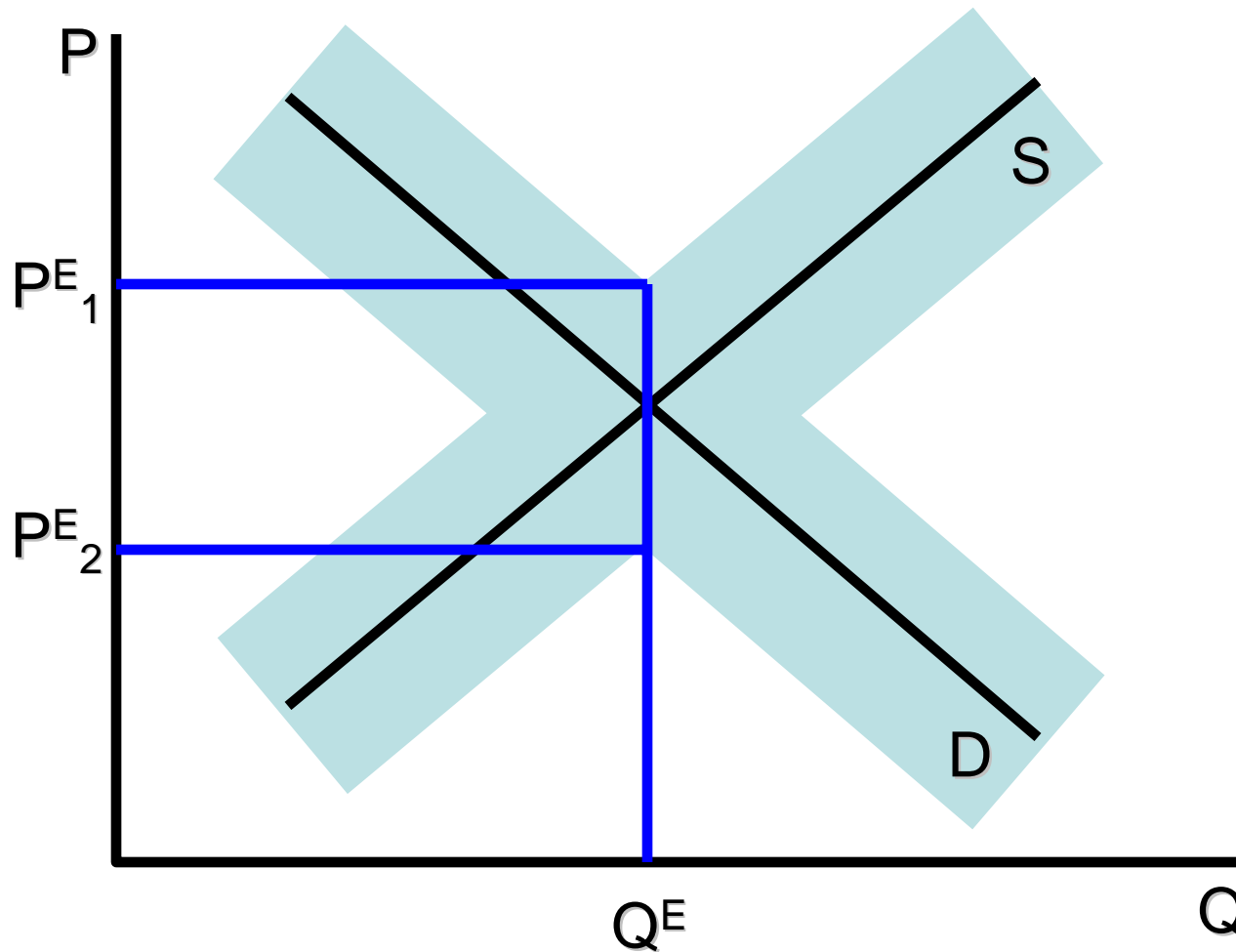
Why Are Prices Publicly Reported?

- Improve price discovery
 - the process by which buyers and sellers use available information to identify where they believe demand and supply intersect to arrive at an agreed upon price for a particular transaction (*Schroeder et al*)
 - the process of assembling a series of prices from distinct transactions into useful measures of market prices (*Perry et al*)

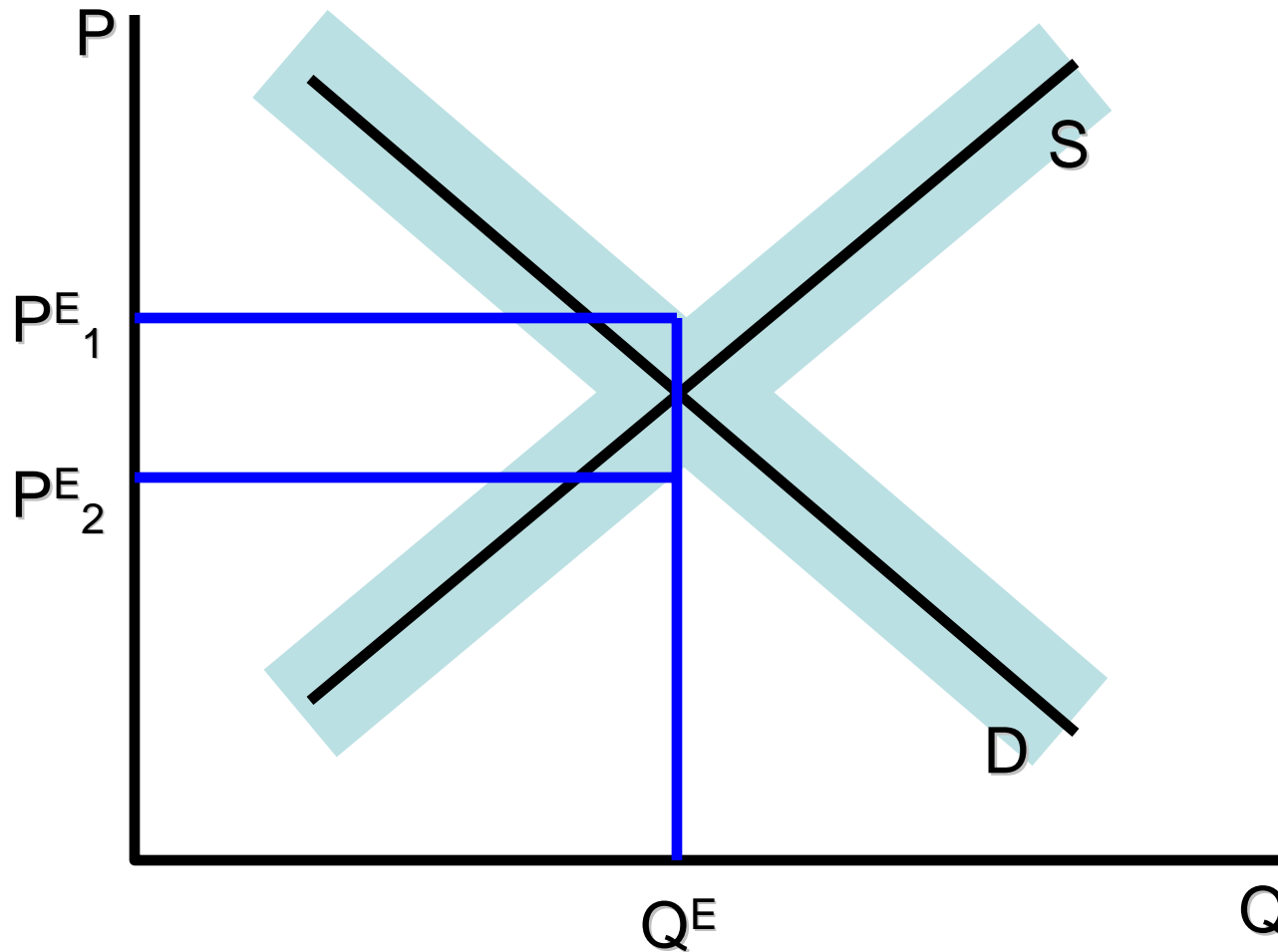
Cattle Market Equilibrium



Cattle Market Price Discovery



Cattle Market Price Discovery-Improved



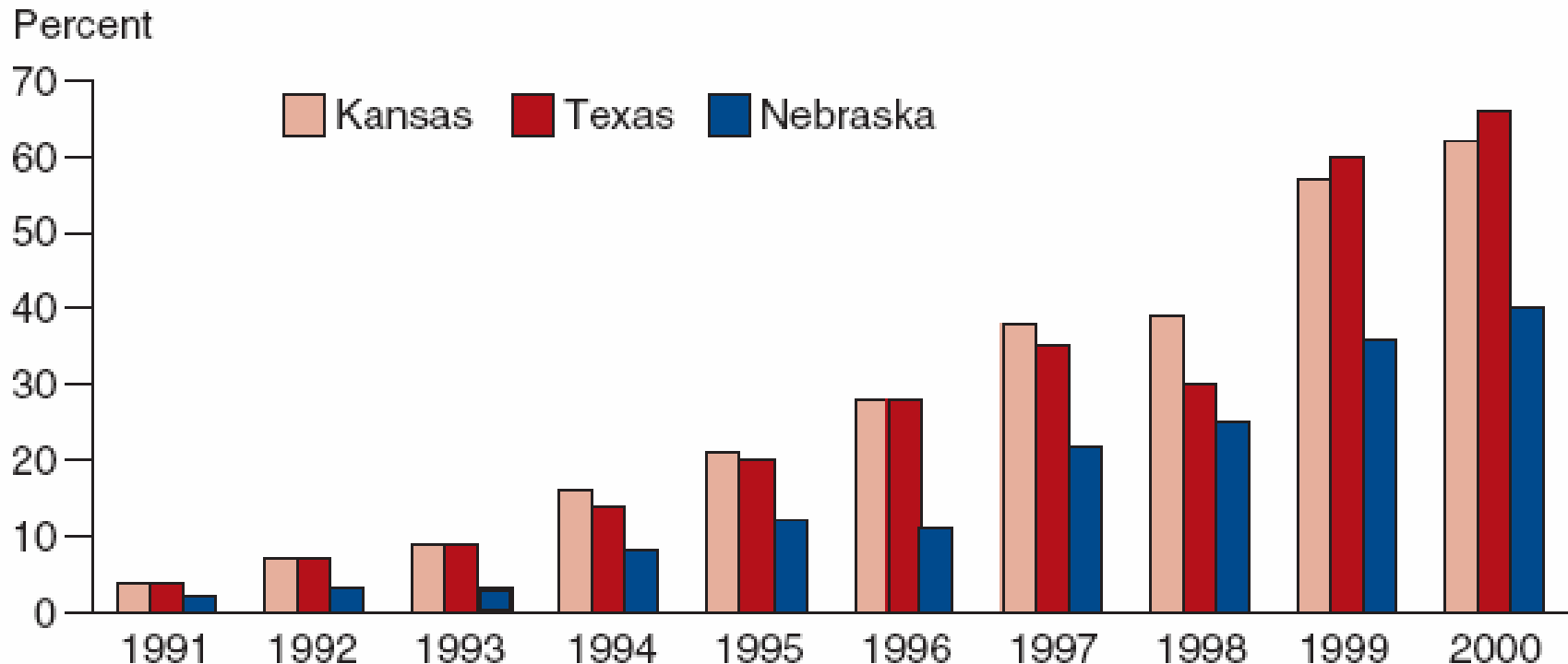
Narrower gap between P^{E_1} and P^{E_2} reflects improved price discovery process

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What Was The Situation Prior To Mandatory Price Reporting?

Cash Market Price Reports Declined Sharply During 1990's

Share of business days that fed cattle cash price was not reported under voluntary price reporting, 1991-2000

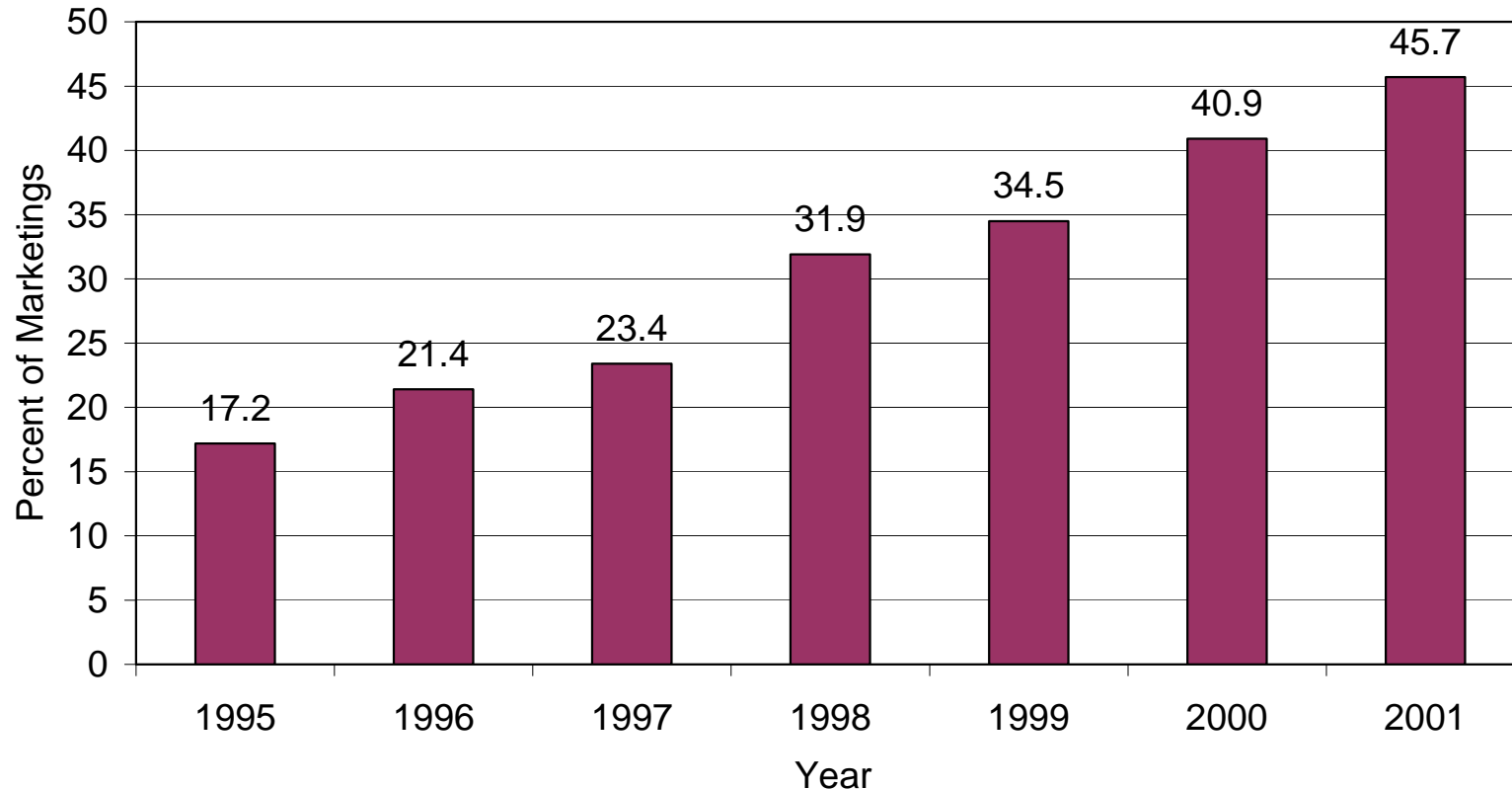


Source: Schroeder et al

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Share of Non-Negotiated Cattle Trade Rose Sharply from 1995 to 2001

"Additional Movement" Share of Fed Cattle
Marketings, KS, CO, NE, & TX, 1995-2001



Source: Schroeder et al

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Rise in Non-Negotiated Trade & Lack of Price Reports Generated Concerns

- Increased uncertainty
- Many producers believed
 - formula prices were consistently and noticeably higher than negotiated prices
 - knowledge of formula prices would help them obtain higher prices from packers

What Have We Learned About Cattle Pricing From Mandatory Price Reporting?

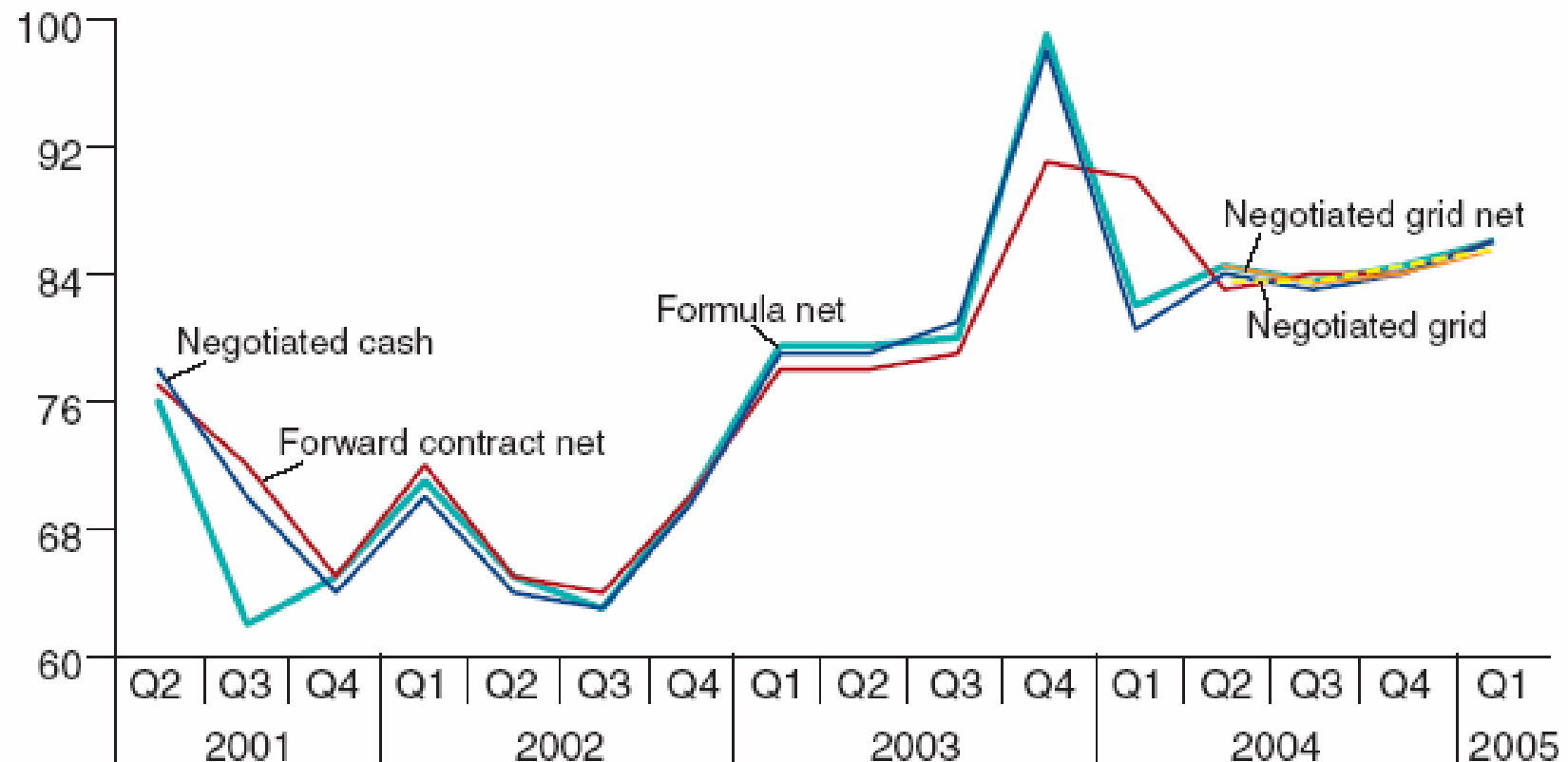
Mandatory Price Reports Provided More Information

- Price information by purchase type
 - Formula net
 - Forward contract net
 - Negotiated cash
 - Negotiated grid base
 - Negotiated grid net

Price Differences Across Purchase Type Are Usually Small

Simple average of weekly weighted-average prices by quarter by purchase type for live steers grading at 35-65 percent Choice

Average of weighted average price

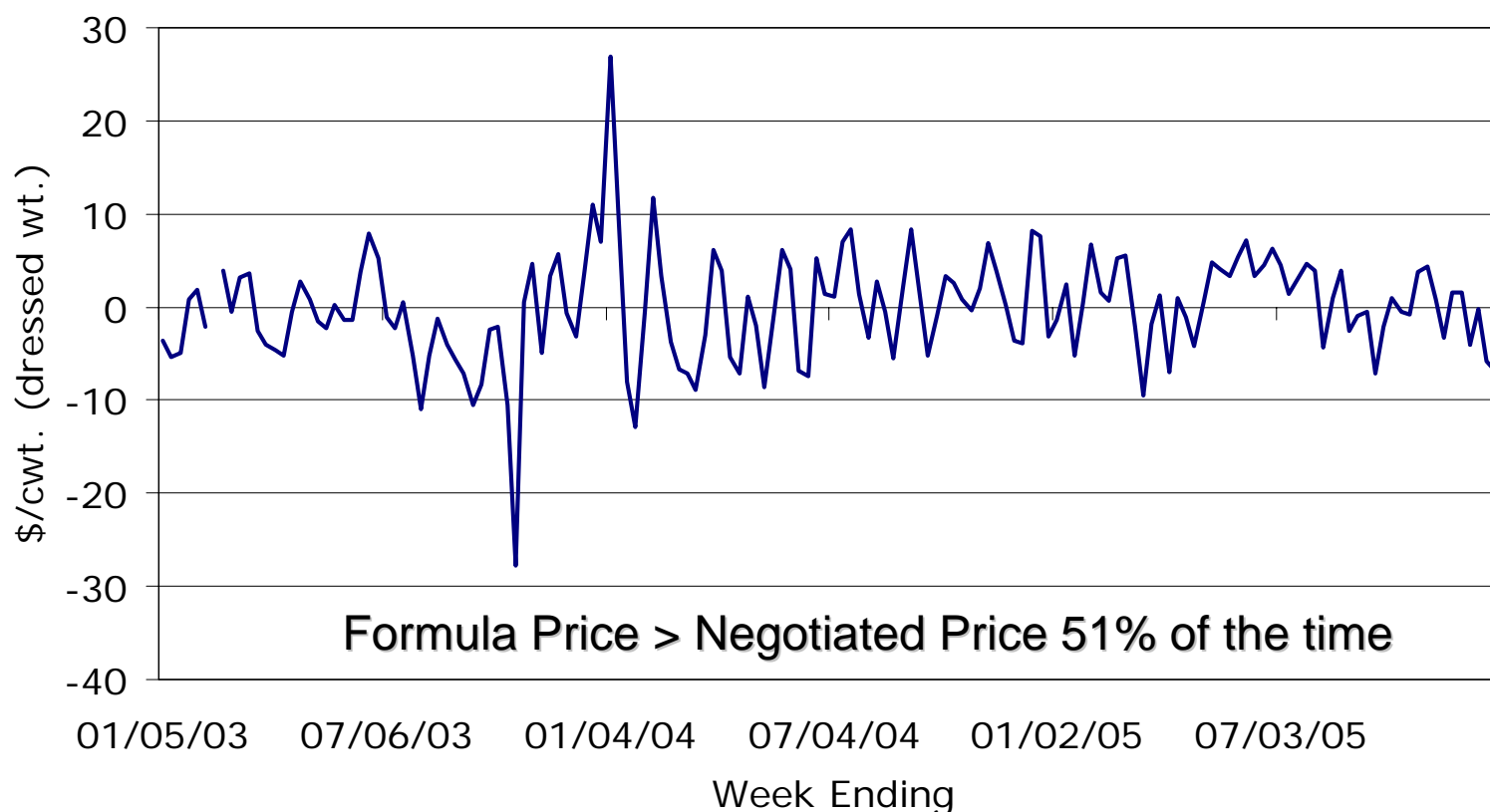


Source: Perry et al

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Formula & Negotiated Cash Prices Generally Track Each Other Closely

Formula Net Minus Negotiated Cash Steer Price
Dressed Weight, 35-65 % Choice, 2003-2005



Source: AMS-USDA, LMIC

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Comparing Formula & Negotiated Prices 2001-2005, Live Weight

Weekly Avg. $P_F - P_C$ \$0.65/cwt.

Standard Deviation \$3.14/cwt.

When

$P_F > P_C$, Average \$2.28/cwt.

$P_F < P_C$, Average -\$1.87/cwt.

$P_F > P_C$ 61% of weeks
(ranged from 53 to 82%
by year)

Source: Perry et al

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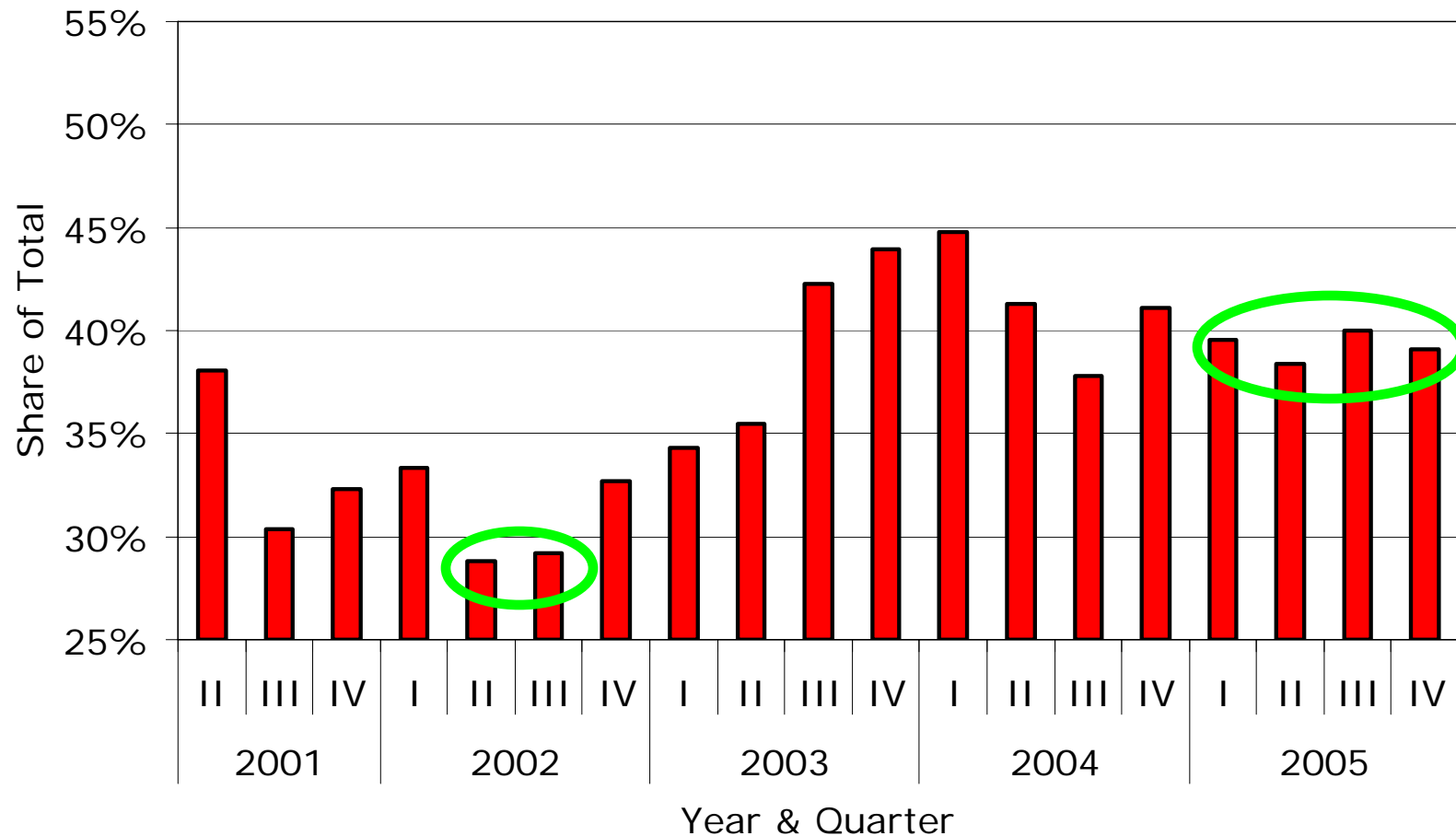
Formula Prices vs. Negotiated Prices

- Mandatory reports did not reveal large premiums for formula prices expected by some
- When adjusted for lag effect, premium of formula prices over negotiated cash shrinks
- Negotiated prices tend to exceed formula prices when prices are rising
- Formula prices tend to exceed negotiated prices when prices are falling
- Reported price variability increased

Source: Ward

Negotiated Purchases Increased Since '02

Negotiated Cash Cattle Sales, Quarterly

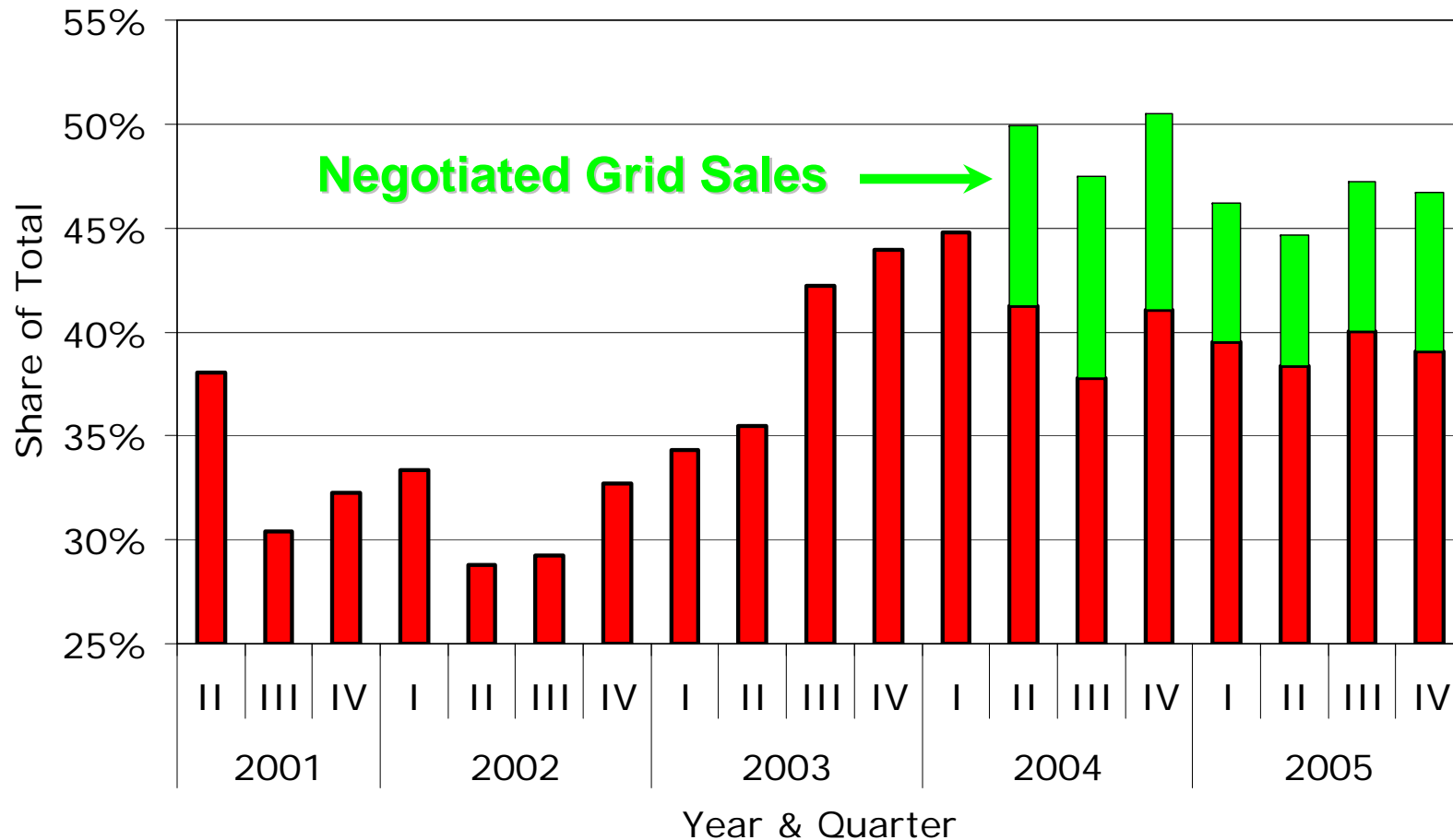


Source: AMS-USDA & LMIC

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Negotiated Purchases Increased Since '02

Negotiated Cash & Grid Cattle Sales



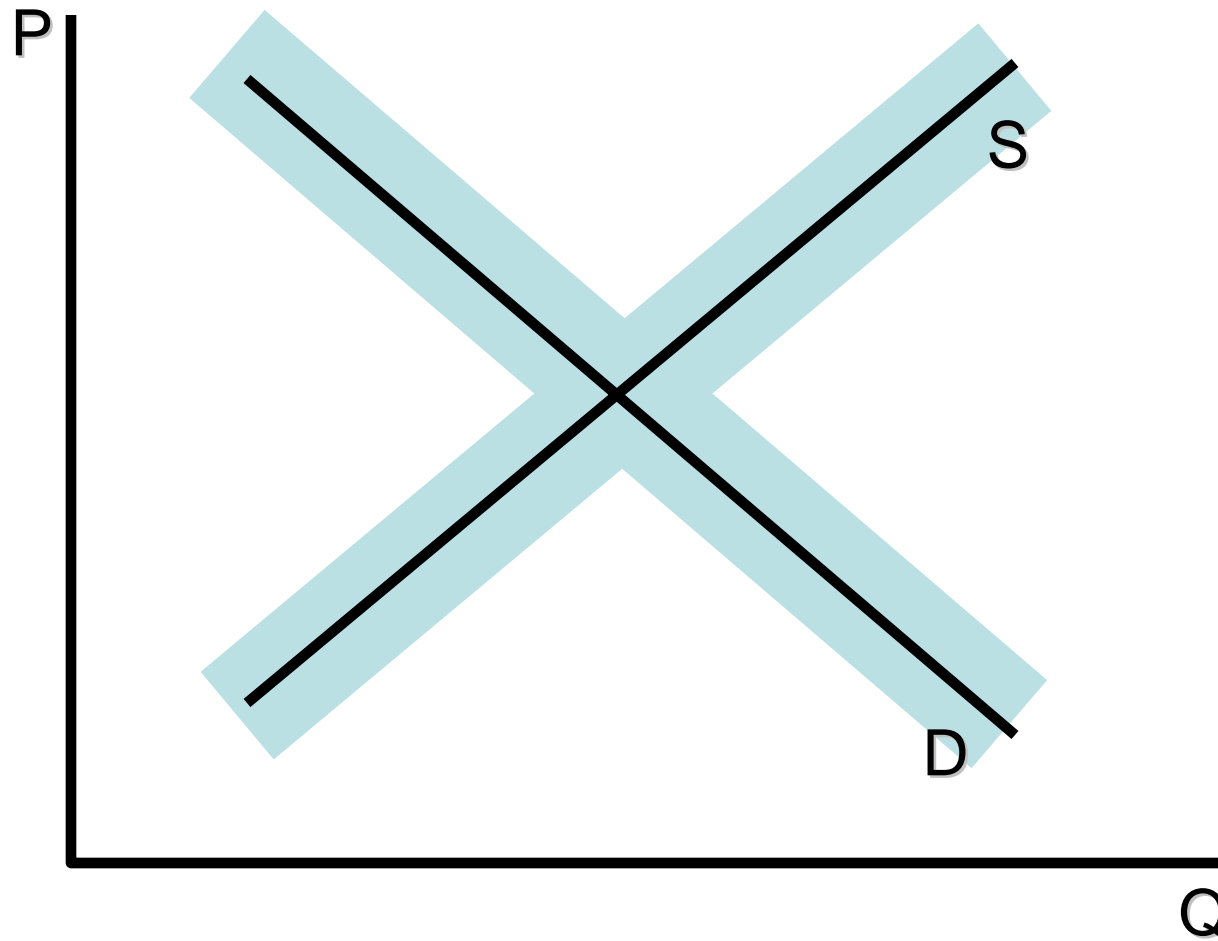
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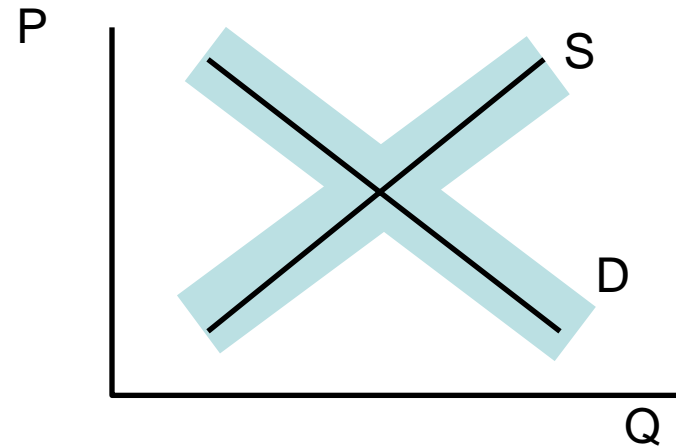
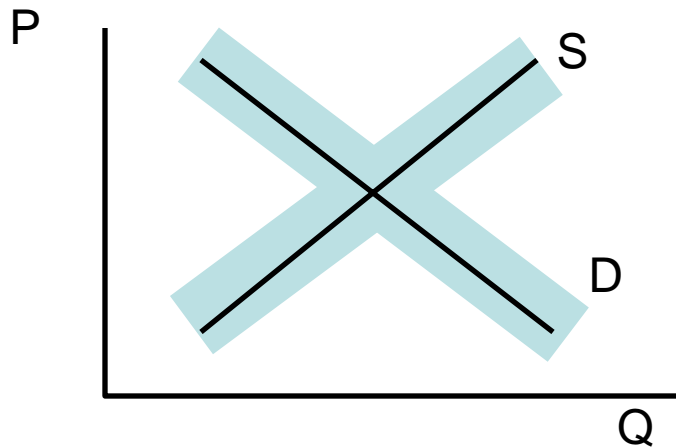
Where Do We Go From Here?

- Industry has become acclimated to mandatory price reporting
- Broad support for reauthorization
- Emphasis to date has been on generating price data comparable to price series available via voluntary price reporting (e.g., “weighted averages”)
 - But industry is becoming more heterogeneous
 - Need to consider how to deliver more heterogeneous price information to the industry

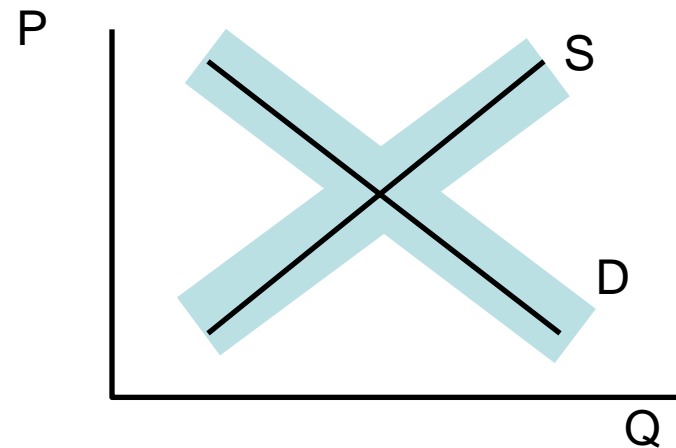
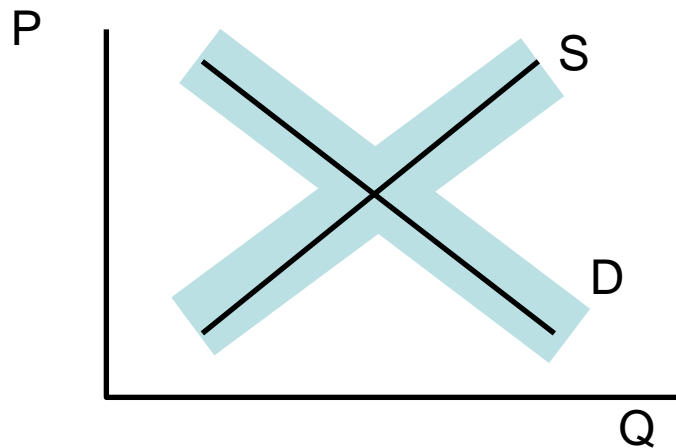
Price Discovery - Homogeneous Industry



Price Discovery - Heterogeneous Industry



How do we supply meaningful price information to these myriad markets in the future?



Thank You

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